

Service Date: October 26, 1994

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER OF the Submission of )	UTILITY DIVISION
Montana-Dakota Utility Company's )	
1993 Integrated Electric Least )	DOCKET NO. 93.9.41
Cost Resource Plan. )	ORDER NO. 5809

**FINAL ORDER**

**BACKGROUND**

1. ARM 38.5.2012 (1) required Montana-Dakota Utilities (MDU) to file its first integrated resource plan on September 15, 1993. On September 3, 1993, MDU requested an extension of the required filing date to November 1, 1993. MDU also requested that the Commission waive ARM 38.5.2003 and the related provisions in ARM 38.5.2005 and 38.5.2007, the specific requirements of 38.5.2005 (2)(b) and (c), and ARM 38.5.2010.

2. On September 21, 1993, the Commission issued a Notice of Commission Action granting MDU's request to file its plan on November 1. The Commission chose not to act on MDU's request that several planning guidelines be waived, noting that the guidelines do not specify the outcome of the planning process or mandate particular investment decisions (ARM 38.5.2001). Instead, the Commission directed MDU to explain in its plan the reason for any inconsistency with the Montana guidelines.

3. MDU's plan was filed on November 1, 1993. Comments were received from the Department of Natural Resources and Conservation (DNRC) on December 30, 1993.

4. On February 2, 1994, the Commission employed a consultant to review and summarize DNRC's comments and to analyze MDU's plan regarding its consistency with the Commission's guidelines. The consultant provided her report on March 14, 1994.

5. On March 31, 1994 MDU requested an opportunity to respond to the DNRC's comments and to the consultant's report. On April 21, 1994 by Notice of Commission Action, the Commission granted MDU until May 13, 1994 to respond.

6. On July 13, 1994 the Commission's consultant provided a follow up report that addressed MDU's response. On September 7, 1994 the Commission issued a Notice of Opportunity for Public Hearing. No requests for hearing were received; however, on September 23, 1994 DNRC requested that the Commission issue a general statement on MDU's 1993 IRP as soon as possible so that the statement may be used by MDU's newly formed advisory group.

### **DISCUSSION**

7. MDU filed its 1993 integrated resource plan with the understanding that it would not fully satisfy the Commission's guidelines. MDU sought waivers of the guidelines related to consideration of external environmental costs (38.5.2003) and exclusion of lost revenues from DSM resource costs (38.5.2005 (2)(b) and (c)).

8. In its request for waivers, MDU stated that least cost planning policies conflict between its regulatory jurisdictions. The Company stated that North Dakota believes resource planning should minimize ratepayer costs while Montana believes total societal costs should be minimized. MDU stated that it believes the appropriate course of action is for the Company to provide a comparative analysis of both planning regimes and identify the differences in results and costs.<sup>1</sup>

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<sup>1</sup>

Request for Extension and Waivers, September 3, 1993. P. 3.

9. MDU's 1993 IRP states that, "the least rate customer test, which minimizes the levelized system average rates...was chosen as the criteria to determine the desired integrated resource plan..."<sup>2</sup>

10. ARM 38.5.2001 (2) states that the guidelines represent the Commission's policy concerning proper integrated least cost resource planning and acquisition. Thus, the guidelines speak to two functions: resource *planning* and resource *acquisition*. In reviewing utilities' resource plans the Commission focuses on the planning function. The resource acquisition function is a topic reserved for rate cases, when the utility seeks to recover the cost of an acquired resource through rates.

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<sup>2</sup> Montana Dakota Utilities Co. Integrated Resource Plan, October 1993. Executive Summary p iii.

11. The Commission recognizes that other states will not necessarily subscribe to Montana's integrated resource planning policies and that this may result in added burdens for multi-jurisdictional utilities. Nevertheless, the Commission agrees with DNRC that information on social costs is necessary to guarantee that the public and regulators know the implications of MDU's resource decisions.<sup>3</sup>

12. The Commission finds that a utility's plan may satisfy the guidelines even when it is clear that the utility's planning philosophy and the Commission's planning philosophy are not consistent. If a utility provides the information and performs the analyses specified in the IRP guidelines, it has satisfied the planning aspect of the guidelines. Theoretically, the Commission and interested parties then have information that is complete and understandable, and that indicates the lowest societal cost resource acquisition plan. The utility's preferred plan may differ from the lowest societal cost plan, but the public and the Commission are better able to judge the implications of this decision. If the utility acquires resources based on a preferred plan which differs from the lowest societal cost plan, it risks the possibility that the Commission may disallow rate treatment for resources that do not contribute to minimizing societal costs.

13. Because MDU has not yet acquired and requested rate treatment for any new resources, the Company has not departed from the Commission's resource acquisition

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<sup>3</sup> Comments of the Montana Department of Natural Resources and Conservation, December 30, 1993. P. 1.

philosophy. However, MDU's goal to minimize system average rates rather than total societal costs represents a fundamental departure from the Commission's resource planning philosophy.

This departure causes the Company's plan to be inconsistent with a number of the Commission's specific guidelines related to external environmental costs, cost effective conservation, DSM cost effectiveness and lost revenues.

14. MDU's 1993 IRP reflects a planning philosophy which differs from the philosophy embodied in the Commission's integrated resource planning guidelines. As noted above, the Commission finds that a utility's plan may satisfy the guidelines even when its preferred plan reflects a different planning philosophy. This is not the case with MDU's filing. The Commission finds that MDU's filing does not satisfy the Commission's guidelines. MDU's plan, which is designed to minimize system average rates, is inconsistent with the Commission's policy to minimize societal costs. The Commission finds that MDU did not provide adequate information in its plan to allow the Commission and the public to understand the implications of MDU's departure from the Commission's policy, as no plan which minimizes societal costs was provided. Thus, the Commission's finding that MDU's plan is inconsistent with the guidelines rests on the fact that MDU did not document a plan that minimizes societal costs, not on the fact that the plan MDU did document minimizes system average rates.

15. 69-3-1204 (3), MCA, requires the Commission to provide the utility a list of deficiencies if the Commission finds that the utility's plan does not satisfy the guidelines. The major deficiency with MDU's plan is a failure to adequately develop a plan for the provision of energy services at the lowest societal cost. In addition, MDU's plan is deficient in the following respects: failure to consider external environmental costs, failure to adequately consider cost effective conservation, failure to consider conservation resources cost effective up to 115% of avoided cost and failure to exclude lost revenues from DSM resource costs. The

Commission notes that these deficiencies are generally a result of MDU's failure to document a plan that minimizes societal costs.

16. 69-3-1204 (3), MCA, requires that a corrected plan be submitted within the time specified by the Commission. The Commission directs MDU to consider the deficiencies identified above and incorporate any changes into its next IRP filing, currently scheduled for September 15, 1995.

17. The Commission finds that MDU should improve its action plan by including more detail on discrete work tasks as well as timelines and budgets for the major projects listed in the action plan.

### **CONCLUSIONS OF LAW**

1. Montana-Dakota Utilities Company is a public utility subject to the jurisdiction of the Montana Public Service Commission pursuant to Title 69, Chapter 3, MCA.

2. The Montana Public Service Commission may require public utilities providing electric service to file plans for meeting requirements of its customers (integrated least cost resource plans) in the most cost effective manner consistent with the utility's obligation to serve. § 69-3-1204 (1), MCA.

3. The Montana Public Service Commission may adopt guidelines to be used in preparing integrated least cost resource plans. § 69-3-1204 (3), MCA.

4. If integrated least cost resource plans do not meet the requirements of the Commission guidelines, the Commission must return the plan to the utility with a list of deficiencies and a time certain to submit a corrected plan. § 69-3-1204 (3), MCA.

5. The Montana Public Service Commission has adopted integrated least cost resource planning guidelines. ARM 38.5.2001-2012.

### **ORDER**

1. Montana-Dakota Utilities Company is hereby directed to incorporate the suggestions and comments made in this order into its 1995 integrated least cost resource plan.

2. This docket is hereby closed.

Done and dated this 24th day of October, 1994, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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BOB ANDERSON, Chairman

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BOB ROWE, Vice Chairman

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DAVE FISHER, Commissioner

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NANCY McCAFFREE, Commissioner

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DANNY OBERG, Commissioner

ATTEST:

Kathlene M. Anderson  
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision.  
A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.